BACK TO RESULTS

NEW SEARCH

Ukraine. Muddling along

INDEX TERMS **Ukraine|IMF, problematic loan conditions; International Monetary Fund|Ukraine, problems meeting loan conditions; Economy|Ukraine, need for IMF loan;**

DATE **4-May-96**

WORDS **542**

KIEV

THE chance of Ukraine's economic revival - never that solid - nearly fizzled last month. The finance minister had allowed too many of Ukraine's duff factories and grubby farms to grab more than their allotted slice of the budget. When word got out, the IMF promptly refused to hand over $ 900m that it had previously agreed to lend. Ukraine cannot afford that sort of loss. The IMF has relented, but it will be even fiercer in making sure Ukraine keeps its promises. And it is still touch-and-go whether the government has the skill or the will to do so.

In the 18 months since President Leonid Kuchma announced a set of radical reforms, things have been tricky. The government had its first row with the IMF earlier this year. Ukraine failed to pay its import bill at the end of December. The budget deficit for 1995 turned out much bigger than planned. An angry parliament had forced the usually strict central bank to print more money. Hence the IMF's decision, in January, to freeze a stand-by loan worth $ 1.5 billion, with only half already spent.

The Ukrainians promised to do better. The loan was renegotiated - with an extra $ 200m generously thrown in. But last month the Ukrainians again began to backslide. Loan frozen again, said the IMF. More Ukrainian promises. Loan unfrozen, said the Fund. But the Ukrainians, to prove their good intentions, were told to wait a month for the next chunk.

People in Kiev seem to be getting used to such stop-go economics. Mr Kuchma wobbles along, wooing state-industrialists one day, coddling reformers the next. But the surface calm and the seeming consensus may be illusory. If, yet again, the Fund withholds all or part of its loans, economic chaos could easily ensue - possibly tempting the Russians to take over again.

Even if Mr Kuchma manages to keep his country on the path to reform, the going will be hard. Ukraine's economy shrank by 12% last year. Inflation, though down from 10,000% in 1993, was still 180%. The country needs $ 2 billion in western cash to close the budget deficit without adding to inflation. The IMF will be watching progress like a surly housewife, dishing out the dough only by the month.

Can Ukraine make it? Pessimists point to the weakness of the reformers, to the corruption, to the slow pace of privatisation. Worse, many businessmen see no immediate point in low inflation, while the state industrialists are as eager as ever for inflation-stoking subsidies. The market is still less developed than in Russia, the state sector still far more dominant.

The optimists put their faith in Mr Kuchma as a man of his word. His prediction for this year is inflation at less than 40%, though it ran at 21% in the first quarter alone. He says mass privatisation will be complete by December. Certainly, Ukraine is now paying the bills for its energy imports from Russia, and charging customers a more realistic price. Foreign investors cannot, say the optimists, ignore the size of Ukraine's market (51m consumers), its resources, its place at the heart of Eastern Europe. The reforms, they claim, are frail but alive. Ukrainians must hope they are right.